

STUART MUNICIPAL UTILITIES
STUART, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended June 30, 2020

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STUART MUNICIPAL UTILITIES

OFFICIALS

(BEFORE JANUARY 2020)

Name	Title	Term Expires
Cory Hansen	Chair	January 1, 2020
Tim Young*	Trustee	Resigned
Francis Marnin**	Trustee	January 1, 2025
Kim Avey	Trustee	January 1, 2024
John Gulbranson	Trustee	January 1, 2024
Shirley Jones	Trustee	January 1, 2024
Pat Howey	Superintendent of Utilities	Indefinite
Ashraf M. Ashour	City Administrator/Utility Treasurer	Indefinite
Melissa Larsen	Attorney	Indefinite

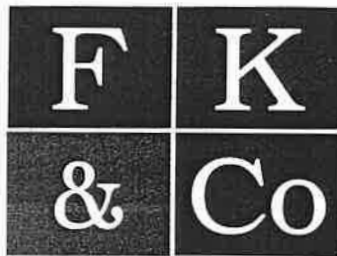
(AFTER JANUARY 2020)

Name	Title	Term Expires
Cory Hansen	Chair	January 1, 2026
Francis Marnin	Trustee	January 1, 2025
Kim Avey	Trustee	January 1, 2024
John Gulbranson	Trustee	January 1, 2024
Shirley Jones	Trustee	January 1, 2024
Pat Howey	Superintendent of Utilities	Indefinite
Ashraf M. Ashour	City Administrator/Utility Treasurer	Indefinite
Melissa Larsen	Attorney	Indefinite

* - Resigned in July, 2019.

** - Appointed in September, 2019.

Stuart Municipal Utilities



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Stuart Municipal Utilities:

Report on the Financial Statement

We have audited the accompanying financial statement of each major fund of the Stuart Municipal Utilities, Stuart, Iowa (Utilities), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of each major fund of the Utilities as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Utilities financial statement. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Budgetary Comparison Information on pages 16 through 17 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2021 on our consideration of the Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

March 16, 2021

Financial Statement

STUART MUNICIPAL UTILITIES

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES

As of and for the year ended June 30, 2020

	Water	Electric	Total
Operating receipts:			
Charges for service	\$ 1,115,914	1,933,397	3,049,311
Miscellaneous	52,243	153,867	206,110
Total operating receipts	1,168,157	2,087,264	3,255,421
Operating disbursements:			
Business type activities	768,669	1,470,977	2,239,646
Total operating disbursements	768,669	1,470,977	2,239,646
Excess of operating receipts over operating disbursements	399,488	616,287	1,015,775
Non-operating receipts (disbursements):			
Interest on investments	4,119	16,082	20,201
Rental income	3,000	3,616	6,616
Miscellaneous	3,171	7,553	10,724
Sale of equipment	9,750	2,500	12,250
Loan repayment	-	17,311	17,311
Loan disbursement	-	(52,767)	(52,767)
Debt service	(173,832)	(417,650)	(591,482)
Payment to City	(14,118)	(11,077)	(25,195)
Capital outlay	-	(461,345)	(461,345)
Net non-operating receipts (disbursements)	(167,910)	(895,777)	(1,063,687)
Change in cash balances	231,578	(279,490)	(47,912)
Cash balances beginning of year	817,066	4,563,202	5,380,268
Cash balances end of year	\$ 1,048,644	4,283,712	5,332,356
Cash Basis Fund Balance			
Restricted for:			
Meter deposit account	\$ 8,932	35,131	44,063
Reserve account	177,565	417,650	595,215
Improvement account	90,000	250,000	340,000
Loan reserve	-	149,484	149,484
Unspent bond proceeds	-	1,487,362	1,487,362
Total restricted cash basis fund balance	276,497	2,339,627	2,616,124
Unrestricted	772,147	1,944,085	2,716,232
Total cash basis fund balances	\$ 1,048,644	4,283,712	5,332,356

See notes to financial statement.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENT

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Stuart Municipal Utilities (Utilities) is a component unit of the City of Stuart, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a five-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Major individual funds are reported as separate columns in the financial statement.

The Utilities reports the following major proprietary funds:

- The Enterprise, Water Fund accounts for the operation and maintenance of the Utilities water system.
- The Enterprise, Electric Fund accounts for the operation and maintenance of the Utilities electric system.

C. Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for the meter deposit account, reserve account, improvement account, loan reserve and unspent bond proceeds are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Cash Equivalents

The Utilities' deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Revolving Loan Fund Agreements

The Utilities received a Rural Economic Development Grant for \$300,000, combined with a required local match of \$60,000, making a total of \$360,000 available to establish a revolving loan fund during fiscal year 2010.

The Utilities made a loan to Project Restore in the amount of \$360,000, dated August 9, 2009 and amended on July 12, 2016, and is repayable in yearly installments of \$16,000. This note is noninterest bearing and may be repaid in whole or in part at any time prior to maturity. This loan was \$15,000 delinquent as of June 30, 2020.

The Utilities made a loan to Mike Tiernan in the amount of \$41,500, dated December 20, 2016, and is repayable in monthly installments of \$400. This note bears interest at 2.0% per annum and may be repaid in whole or in part at any time prior to maturity. In addition, on each anniversary date, the borrower shall pay an administration fee in the amount of 1% of the unpaid principal balance of the loan.

The Utilities made a loan to Stuart Family Dental, P.C. in the amount of \$47,650, dated January 18, 2020, and is repayable in monthly installments of \$608.37. This note bears interest at 2.0% per annum and may be repaid in whole or in part at any time prior to maturity. In addition, on each anniversary date, the borrower shall pay an administration fee in the amount of 1% of the unpaid principal balance of the loan.

Annual amounts receivable (principal and interest) in the future in relation to these loans are as follows:

Year Ending June 30,	Amount Due
2021	\$ 43,100
2022	28,100
2023	28,100
2024	28,100
2025	26,781
2026	7,200
	<u>\$ 161,381</u>

Total receipts from these loans were \$17,311 in fiscal year 2020.

The Utilities made a loan to Exploration & Learning Station, L.L.C. and Alicia D. Geil in fiscal year 2020. A total of \$52,767 was advanced to the borrower in fiscal year 2020. The total loan amount was \$138,000. The balance, or \$85,233 will be advanced to the borrower as costs are incurred in fiscal year 2020. Repayment of this loan is expected to begin in November 2020.

Note 3. Revolving Loan Fund Agreements (continued)

As of June 30, 2020, the Utilities has \$149,484 available in funds for lending in relation to this revolving loan fund.

Note 4. Revenue Notes and Bonds Payable

A summary of changes in water revenue notes and electric revenue bonds payable for the year ended June 30, 2020 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Water Revenue Capital Loan Notes	\$ 630,000	-	145,000	485,000	155,000
Electric Revenue Improvement and Refunding Bonds	4,755,000	-	260,000	4,495,000	265,000
Business-type activities total	\$ 5,385,000	-	405,000	4,980,000	420,000

Revenue Notes and Bonds Payable

A summary of the Utilities June 30, 2020 revenues notes and bonds payable is as follows:

Year Ending December 31,	Water Revenue Capital Loan Notes		Electric Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	155,000	21,348	265,000	151,150	420,000	172,498
2022	160,000	14,605	270,000	144,525	430,000	159,130
2023	170,000	7,565	275,000	137,775	445,000	145,340
2024	-	-	285,000	130,212	285,000	130,212
2025	-	-	290,000	122,375	290,000	122,375
2026-2030	-	-	1,605,000	459,875	1,605,000	459,875
2031-2034	-	-	1,505,000	149,775	1,505,000	149,775
	<u>\$ 485,000</u>	<u>43,518</u>	<u>4,495,000</u>	<u>1,295,687</u>	<u>4,980,000</u>	<u>1,339,205</u>

Water Revenue Capital Loan Notes

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$2,000,000 in water revenue capital loan notes issued in 2007. Proceeds from the notes provided financing for the construction of water main replacements, and to refund an older debt issue. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 44% of net receipts. The total principal and interest remaining to be paid on the notes is \$528,518. For the current year, principal and interest paid and total customer net receipts were \$172,583 and \$399,488, respectively.

The resolutions providing for the issuance of the water revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the water system and the note holders hold a lien on the future earnings of the water system.

Note 4. Revenue Notes and Bonds Payable (continued)

- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 100% of the principal and interest of all outstanding notes and bonds due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue note and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the notes.
- (d) A total of \$177,565 shall be maintained in a reserve account. The account is to be used solely for the purpose of paying principal and interest on the notes if funds are insufficient in the sinking account.
- (e) A total of \$90,000 shall be maintained in an improvement account.
- (f) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes, and then can be used for any lawful purpose.

The sinking account was not used in the fiscal year.

Electric Revenue Improvement and Refunding Bonds

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$5,195,000 in electric revenue improvement and refunding bonds issued in 2017. Proceeds from the bonds provided financing for the improvements and extension to the electric system, and to refund an older debt issue. The bonds are payable solely from electric customer net receipts and are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 68% of net receipts. The total principal and interest remaining to be paid on the bonds is \$5,790,687. For the current year, principal and interest paid and total customer net receipts were \$417,650 and \$616,287, respectively.

The resolutions providing for the issuance of the electric revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the electric system and the bond holders hold a lien on the future earnings of the electric system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding notes and bonds due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to an electric revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A total of \$417,650 shall be maintained in a reserve account. The account is to be used solely for the purpose of paying principal and interest on the bonds if funds are insufficient in the sinking account.
- (e) A total of \$250,000 shall be maintained in an improvement account.

Note 4. Revenue Notes and Bonds Payable (continued)

- (f) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the electric system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The sinking account was not used in the fiscal year.

Note 5. Termination Benefits

Even though all employees are City employees, the Board of Trustees has adopted a voluntary early retirement plan for employees who work on Utilities activities. The application for early retirement was subject to approval by the Board of Trustees. Early retirement benefits consist of the following:

- For employees who have more than 30 years of service, the Utilities will pay 75% of the cost of employees' health insurance premiums for a maximum of three consecutive years.
- For employees who have between 20 and 30 years of service, the Utilities will pay 50% of the cost of employees' health insurance premiums for a maximum of two consecutive years.

At June 30, 2020, the Utilities had an obligation to no participants. Actual early retirement expenditures for the year ended June 30, 2020 totaled \$1,530.

Note 6. Lease Agreements

The Utilities is leasing antenna space on the water tower to Coon Valley Cooperative Telephone Association, Inc. The Utilities negotiated a new lease in fiscal year 2016, with an effective date of July, 2016. The lease is for five years, with two additional (1) year renewal options. The Utilities received \$3,000 from this lease in fiscal year 2020. The lease rate during the term of the five year lease, including the two additional (1) year renewal options is \$250 per month, or \$3,000 per year.

The Utilities is leasing pole space to communication providers. All of these leases appear to be on a month-to-month or on a year-to-year basis. The Utilities received \$3,616 from tenants in fiscal year 2020 from these leases.

Note 7. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Contracts

The Utilities is one of 15 municipal utility members of the South Iowa Municipal Electric Cooperative Association (SIMECA). SIMECA is a member of the Central Iowa Power Cooperative (CIPCO).

SIMECA is organized to purchase, generate, transmit, or distribute electric energy and to develop and establish safety programs for the benefit of its municipal members. The Utilities signed purchasing agreements with SIMECA in 1986, 1994, 2006 and a new long-term agreement in 2013. SIMECA has contracted with CIPCO for the electrical power and transmission needs of its members. SIMECA and CIPCO have agreed to a new contract through May 31, 2053. Profits from SIMECA are returned to its members as patronage refund dividends. There are no minimum payments required by this contract.

The Utilities purchases water for resale from Xenia Rural Water District. The Utilities can purchase a maximum of 500,000 gallons per day. The contract period goes through year 2040.

Note 8. Contracts (continued)

The Utilities has the ability to generate its own electricity and pump its own water. However, due to financial and availability concerns, the Utilities purchases most of its electricity and water from SIMECA and Xenia Rural Water District, respectively.

Note 9. Commitments

As explained in note 3 above, as of June 30, 2020, the Utilities has \$149,484 available in funds from the Rural Economic Development Grant and related match funds to lend from the revolving loan fund to qualified applicants.

The Utilities entered into a construction contract for electric system improvements. Approximately \$278,000 remains to be completed on this work. This work will be paid for as work progresses in fiscal year 2021. This project will be paid for from proceeds of a bond issued in fiscal year 2018.

The Utilities has an agreement for generator maintenance and an agreement for windmill maintenance. The total amount owed in relation to the generator maintenance agreement will be \$53,812 over the next two fiscal years. The total amount owed in relation to the windmill maintenance agreement will be \$54,500 over the next five fiscal years.

As documented in note 3 above, the Utilities is obligated to borrow an additional \$85,233 to Exploration & Learning Station, L.L.C. and Alicia D. Geil from the Utilities revolving loan fund.

The Utilities has made a commitment to pay the City \$25,195 per year for the next thirteen years for a total of \$327,535. These monies will come from Utilities funds to reimburse the City for costs incurred for water and electric projects originally paid for by the City.

Note 10. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Utilities, remains uncertain. To date, the outbreak has not created a material disruption to the operations of the Utilities. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Utilities operations and finances.

Note 11. Subsequent Events

The Utilities has evaluated subsequent events through March 16, 2021, which is the date that the financial statement was available to be issued.

Note 12. Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

STUART MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL
OTHER INFORMATION

Year ended June 30, 2020

	Actual	Budgeted Amounts Original	Original to Actual Variance
Receipts:			
Use of money and property	\$ 26,817	13,110	13,707
Charges for service	3,049,311	3,040,047	9,264
Miscellaneous	216,834	247,234	(30,400)
Total receipts	3,292,962	3,300,391	(7,429)
Disbursements:			
Business type activities	3,317,668	5,158,542	1,840,874
Excess (deficiency) of receipts over (under) disbursements	(24,706)	(1,858,151)	1,833,445
Other financing sources, net	(23,206)	-	(23,206)
Change in cash balance	(47,912)	(1,858,151)	1,810,239
Cash balance beginning of year	5,380,268		
Cash balance end of year	\$ 5,332,356		

See accompanying independent auditor's report.

STUART MUNICIPAL UTILITIES

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2020

The Stuart Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments

During the year ended June 30, 2020, disbursements did not exceed the amount budgeted.

Supplementary Information

STUART MUNICIPAL UTILITIES

Schedule 1

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2020

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Revenue Notes and Bonds -			
Water Revenue Capital Loan Notes	12/01/07	3.75-4.45%	\$ 2,000,000
Electric Revenue Improvement and Refunding Bonds	12/28/17	2.00-4.00%	5,195,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
12/01/07	\$ 630,000	-	145,000	485,000	27,583	-
12/28/17	4,755,000	-	260,000	4,495,000	157,650	-
	<u>\$ 5,385,000</u>	<u>-</u>	<u>405,000</u>	<u>4,980,000</u>	<u>185,233</u>	<u>-</u>

See accompanying independent auditor's report.

STUART MUNICIPAL UTILITIES

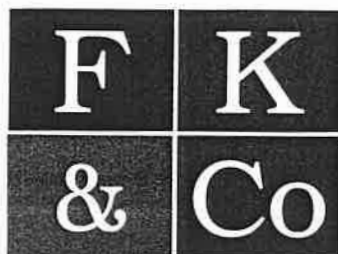
Schedule 2

NOTE MATURITIES

June 30, 2020

Year Ending June 30,	Water Revenue Capital Loan Notes		Electric Revenue Improvement and Refunding Bonds		Total
	Issued December 1, 2007		Issued December 28, 2017		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2021	4.35%	\$ 155,000	2.50%	\$ 265,000	420,000
2022	4.40%	160,000	2.50%	270,000	430,000
2023	4.45%	170,000	2.75%	275,000	445,000
2024	-	-	2.75%	285,000	285,000
2025	-	-	3.00%	290,000	290,000
2026	-	-	3.50%	300,000	300,000
2027	-	-	3.50%	310,000	310,000
2028	-	-	3.50%	320,000	320,000
2029	-	-	3.50%	330,000	330,000
2030	-	-	3.50%	345,000	345,000
2031	-	-	3.50%	355,000	355,000
2032	-	-	3.75%	370,000	370,000
2033	-	-	4.00%	380,000	380,000
2034	-	-	4.00%	400,000	400,000
		\$ 485,000		\$ 4,495,000	4,980,000

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Stuart Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of each major fund of the Stuart Municipal Utilities, Stuart, Iowa (Utilities), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, and have issued our report thereon dated March 16, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items I-A-20, I-B-20 and I-D-20 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items I-C-20, I-E-20 and I-F-20 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Utilities Responses to the Findings

The Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

March 16, 2021

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Part I: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Stuart Municipal Utilities (Utilities) financial statement.

Condition – Generally, one or two individuals in the Utilities has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Utilities has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Utilities ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Utilities should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

I-B-20 Preparation of Financial Statement

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statement and accompanying notes to the financial statement by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statement and accompanying notes to the financial statement is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Utilities. The outside party does not have the constant contact with ongoing financial transactions.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Recommendation - We recommend that Utilities officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statement and accompanying notes to the financial statement internally.

Response - These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion - Response acknowledged.

I-C-20 Receipts

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statement on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Utilities financial statement.

Condition - Receipts are not deposited timely by the Utilities. Currently, receipts are deposited to the bank within 2-3 days after receipt.

Cause - Utilities policies do not require and procedures have not been established to ensure all receipts are deposited timely.

Effect - Lack of Utilities policies and procedures resulted in City employees not depositing timely.

Recommendation - The Utilities should establish procedures to ensure all receipts are deposited timely, preferably on a daily basis.

Response - We will attempt to implement this recommendation.

Conclusion - Response acknowledged.

I-D-20 Financial Reporting

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statement on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Utilities financial statement.

Condition - A material amount of receipts and disbursements were not coded to the proper receipt and disbursement codes in the Utilities financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made by the Utilities to properly include these amounts in the financial statement. In addition, the Utilities appears to maintain funds which do not have a defined purpose or are not needed.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Cause – Utilities policies do not require and procedures have not been established to require independent review of financial records to ensure the Utilities financial records are coded accurately and that only funds are used by the Utilities which have a defined purpose.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Utilities financial statement was necessary. In addition, funds are used by the Utilities which do not appear to have a defined purpose.

Recommendation – The Utilities should ensure all receipts and disbursements are coded to the proper codes in the financial records according to the Uniform Chart of Accounts. The Utilities should also review all funds and eliminate unneeded funds which do not appear to have a defined purpose.

Response – The Utilities will attempt to implement these recommendations.

Conclusion – Response acknowledged.

I-E-20 Meter Deposits

Criteria – An effective internal control system provides for reconciling the dollar value of meter deposits on hand with the cash balances as recorded in the meter deposit account.

Condition – Even though a reconciliation is performed, the reconciliation of the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account does not reconcile.

Cause – Policies and procedures have not been implemented to ensure the Utilities accurately reconciles the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account.

Effect - Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The Utilities should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

I-F-20 Utility Recording

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Condition – Posting fees charged to customers are not added to the Utilities billing system as a charge. Also, insufficient funds check fees are not added to the Utilities billing system as a charge. As a result, when these posting fees and insufficient funds checks are collected the related receipts are also not recorded on the Utilities billing system as a receipt. However, these receipts are recorded on the accounting system, but are not recorded on the Utilities billing system.

Cause – Policies have not been established and procedures have not been implemented to ensure all posting fees and insufficient funds checks are added to the Utilities billing system.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – The Utilities should implement procedures to ensure all utility transactions are recorded on the Utilities billing system.

Response – We will review this.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-20 Certified Budget – The budget certified by the City of Stuart includes an amount for the Stuart Municipal Utilities (Utilities). Disbursements during the year ended June 30, 2020 did not exceed the amounts budgeted.
- II-B-20 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-20 Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- II-D-20 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- II-E-20 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-20 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-G-20 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.
- II-H-20 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted.
- II-I-20 Revenue Notes and Bonds – Instances of non-compliance with the water revenue notes and the electric revenue bonds requirements for the fiscal year ended June 30, 2020 were noted:
- The water revenue capital loan notes resolutions require monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue note and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the notes. We noted that the Utility did not maintain a sinking account for the water revenue capital loan notes.
 - The electric revenue improvement and refunding bonds resolutions require monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to an electric revenue bond and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the bonds. We noted that the Utility did not maintain a sinking account for the electric revenue improvement and refunding bonds.

Recommendation – The Utilities should consult legal counsel to determine the disposition of these matters and should implement procedures to ensure water revenue notes and electric revenue bonds requirements are met.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

STUART MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended June 30, 2020

II-J-20 Rental Agreements – The Utilities rents pole space to various vendors. We noted that some of these rental agreements are out of date and other vendors are not paying the Utilities.

Recommendation – The Utilities should implement procedures to ensure the rental agreements are up to date for the rental of pole space and that the Utilities ensure all vendors are paying their rental of pole space.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-K-20 Revolving Fund Loan – One borrower is \$15,000 delinquent on their revolving fund loan payment due to the Utilities.

Recommendation – The Utilities implement procedures to ensure all revolving fund loan payments from borrowers are received.

Response – We are currently working on a resolution to this issue.

Conclusion – Response acknowledged.